

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
DEFINED CONTRIBUTION PLAN COMMITTEE MEETING

Fairbanks Westmark Hotel
813 Noble Street
Fairbanks, Alaska

September 23, 2015

ATTENDANCE

Committee Present: Sam Trivette, *chair*
Tom Brice
Commissioner Sheldon Fisher
Sandi Ryan

Department of Revenue Staff Present:
Jerry Burnett (deputy commissioner)
Gary Bader (chief investment officer)
Pamela Leary (director, Treasury Division)
Bob Mitchell (deputy chief investment officer)
Judy Hall (board liaison)

Department of Administration Staff Present:
John Boucher (deputy commissioner)
Kevin Worley (chief financial officer, Retirement & Benefits Division)
Kathy Lea (chief pension officer, Retirement & Benefits Division) *on-line*

Others Present: Stuart Goering (Dept. of Law, ARMB legal counsel)
Joy Wilkinson (Office of Management & Budget)
Lori Lucas (Callan Associates, Inc.)

CALL TO ORDER

CHAIR SAM TRIVETTE called the meeting to order at 11:04 a.m.

ROLL CALL

All four committee members were present at roll call to form a quorum.

PUBLIC MEETING NOTICE

MS. HALL confirmed that proper meeting notice had been done.

APPROVAL OF AGENDA

MS. RYAN moved to approve the agenda. MR. BRICE seconded. The motion passed without objection.

APPROVAL OF MINUTES – April 22, 2015

MS. RYAN moved to approve the minutes of the April 22, 2015 meeting. COMMISSIONER FISHER seconded. Without objection, the minutes were approved as written.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

No one present or on line responded to the Chair's invitation to address the committee. MS. HALL reported there were no communications to the committee.

REPORTS

A. Updates:

Update on Empower Survey

Update on Participant Disbursements Data

[A set of slides entitled "State of Alaska Distribution Survey" is on file at the ARMB office.]

Chief pension officer in the Division of Retirement and Benefits, KATHY LEA, referred to the defined contribution plan portion of the "State of Alaska Distribution Survey" that Empower Retirement is doing for the Division. She said a couple of things stood out in the survey results. One was that 76% of the people disbursing did not attend a seminar for new employees. That same percentage had about 0-5 years' worth of service. The other statistic that stood out was that nearly half of the people were using the money for personal use or living expenses. That tells the division that it needs to continue to focus on employer education to get the employees the information they need, in order to understand what their benefits are.

MS. LEA said that directly related to the survey is that DRB is going to add additional questions to the survey by January at the latest that will further drill down into some of the responses regarding the reason that people are disbursing when they are rolling over to another plan. People are indicating that the plan has inflexibility or that there are additional perks that they are getting from their new vendor. The inflexibility portion is kind of confusing to DRB because the participants also are not interested in a brokerage option. DRB also does not know what participants mean by additional perks, and they may not mean investment items.

DRB/Empower Activities to Educate DCR Plan Participants

MS. LEA reported that the division is working on on-line presentations on its web site for new employee education that hopefully will be ready to roll out by January. DRB is currently working with employers to use these in their new employee orientation. The State of Alaska has already agreed to link to the presentations as part of the new employee orientation for the State. Those two things should help the division to understand why people are disbursing, and also to get more information to the employee to understand that when they are cashing out for current needs they are actually cashing out their future as well.

CHAIR TRIVETTE recalled there was mention at the last meeting about a survey tool that would garner a higher response than the survey monkey that Empower is using. He asked Ms. Lea if the division had talked to Empower about that.

MS. LEA said DRB talked to Empower, and Empower feels the response rate is pretty good for this type of a survey. This is the only vehicle that Empower uses. The division's own communications section is currently discussing the use of surveys and other means to be able to measure the performance of different areas of the division. Management has also given them heads up that they are interested in any of that information the communications section may have.

Regarding other things being done for participants, MS LEA reported that DRB negotiated a Managed Account free-look with Empower. Participants must enroll on their own, but any employee who is not in any of the advisory services can actively enroll in the free-look option, which goes from October to the end of December. They can also email Advised Assets Group (AAG) to set up an appointment for a retirement readiness review or to get their questions answered. The division believes this is a key piece because it will help to educate them that this is long-term savings and retirement savings and not just for their current bills/wants/needs.

The division is also investigating a service Empower Retirement has that is called distribution counseling. Employees who have applied for a distribution would get a call from a licensed financial counselor employed by Empower, who would talk to them for a few minutes and provide counseling about keeping the money in the plan. If an employee plans to roll over to another private sector group, the financial counselor will help them understand the higher fees they are going to pay. If an employee is taking the money out of the plan for personal use, they will get counseling to either leave it in the plan, or roll it over, or to potentially take an annuity option. Empower's records show that they have 70% success in retaining assets. DRB has asked for contacts with other states that are using the Empower distribution counseling service and will be talking to them over the next quarter to see what their experience has been.

Chief investment officer GARY BADER asked if Empower distribution counselors were empowered to recommend their products to the retiree, or would they limit themselves to saying what the fees are within the person's plan. He said he was concerned that, if the counselors are recommending the products of their firm or Great-West, it would have at least the appearance of being compromised in terms of what they are advising people to do.

Deputy commissioner JOHN BOUCHER responded that this has been a concern of the Department of Administration. Empower's proposal would be that they would market an Empower option as one of the exit strategies from the retirement plan.

MS. LEA stated that Empower financial counselors are not going to recommend rolling over into Great-West funds. They will recommend the purchase of a Great-West annuity. Their statistics show that less than 2% of people take an annuity. She said DRB shares Mr. Bader's concern with this part of the proposal.

MR. BOUCHER confirmed that the Department of Administration was still in discussion on this option, and he planned to talk to Empower about that particular feature of the distribution counseling service.

MR. BADER said that if the discussion goes down the line toward an annuity, the State of Alaska has some experience with insurance companies offering annuities to their employees. At the time of Executive Life and its going into conservancy, there were several hundred million dollars at risk. Executive Life was a AAA-rated company at the time the decisions were made to hire them as the annuity provider for the State. He did not think Empower was a AAA-rated company. Even with a AAA-rated company, annuity investments are for life, and if there is an advisor who is advising people to go to a product of their company, they ought to spread it around and not be so concentrated in one company. He hoped that if the direction goes in terms of a single annuity provider, then annuity providers ought to be put out to competitive bid and not just inherit the advantaged position because they happen to be the recordkeeper for the plan.

MR. BRICE asked Ms. Lea if the survey included any cross tabs, demographic information, age, geographic location, those types of things.

MS. LEA said DRB was unable to do that with this type of survey. They are looking at potentially doing the survey internally so they can get a bit more information. Regarding the annuity, she said it was important to understand that all four plans (PERS, TRS, SBS and Deferred Compensation) presently have an annuity option, and that annuity carrier is Empower. It is not sent out to bid separately because there is such little usage of it that the division cannot get anyone to bid. She added that Empower has told DRB their representatives are not compensated any differently if the member keeps the money in the plan, buys an annuity, or rolls the money over to an outside plan. DRB is skeptical as well and wants to continue investigating. DRB also has the capability, if there are any complaints, to pull the actual telephone conversation and listen to it. They can also pull conversations if they just want to monitor to see what the distribution counselors are saying. The division believes the best information it will get on this service will come from talking with other state retirement plans that are using it.

MS. RYAN asked if the distribution counseling service was already included in what Empower Retirement offers the State and it just has not been used, or if the State or plan participants would have to pay additional fees for this service.

MS. LEA replied that the service is already included, so there is no additional cost. Actually, it is in Empower's best interest to keep the assets in the plan. They earn more through recordkeeping fees than they would if the assets leave the plan or even if the assets were to go to an annuity.

MR. BOUCHER stated that if folks were aware of other strategies that would be similar to Empower's distribution counseling that would not have the hazards that have been brought up, he was interesting in hearing about them. He added that there is much concern, particularly at the Board level, about the leakage out of the retirement plans. The division is trying to address that in a systematic way, but everyone has concerns about the Empower option.

MR. BRICE remarked that going back to a defined benefit plan was one idea.

MS. LEA stated that the division is also doing an asset retention campaign that will start with National Save for Retirement Week in the last week of October.

In the last quarter the division put out the recordkeeping contract again, and Empower Retirement was the group that was awarded. DRB negotiated lower fees for the recordkeeping contract. These will not be readily apparent to the participant because the administrative expenses have increased, so DRB has shifted the savings from the recordkeeping over to the administrative expense area. The participant will be paying the same fees as they have paid for the last few years.

CHAIR TRIVETTE asked if DRB had increased its staff over the last ten years, or roughly since the defined contribution plan was created. MS. LEA replied that the division was working with the same staff level it had in 2007. CHAIR TRIVETTE said it is always an issue. He recalled this committee asking a lot of questions years ago. He did not know if the committee needed to get there in the near future about whether or not some things might be better done by people in the state that know employees a lot better than some folks that do not live here might know them.

MS. LEA stated that at some point in the future fees are going to become an issue because, if they continue to grow, the division will have to increase participant fees. The State bought a few years by negotiating a lower recordkeeping contract. She added that the division has also streamlined a lot of processes, which is one of the things that enabled negotiating the lower recordkeeping fees. Any time the division wants to be different and outside of Empower's electronic processes, there is a cost for that.

One thing DRB is doing for the participants in the defined benefit plan, who are participating in the Supplemental Benefit System (SBS) or the Deferred Compensation Plan, is the division is about to transfer the benefit projection information from the annual defined benefit statements for PERS to Empower. That will allow Advised Assets Group, which does all the advice management, to use this projected benefit in the calculation of asset allocation. This may allow less aggressive recommendations from them because they can now see the whole picture for the participant.

MS. LEA mentioned projects that DRB has planned for the next year. The division has talked to other deferred compensation plans, and many of them are using automatic enrollment and seeing a lot of success in helping employees save for retirement that way. Alaska law does not allow doing that, so the division is going to move to an active choice enrollment for deferred compensation for new employees. So instead of never hearing about the deferred compensation plan until a retirement specialist visits their work place, a new employee will actually be asked at the time of hire whether they want to participate, and they have to make an active choice. If they make no choice, they are defaulted into not participating.

When the employer reporting tools are updated, the division hopes to take the deferred compensation plan statewide to provide more assets into the plan. The more assets there are, the

lower the fees. The division has also been approached by several employers asking if there were plans to do this because they are paying much higher fees than the state participants are paying.

CHAIR TRIVETTE asked what it would take to allow all the employers in the retirement systems to participate in the deferred compensation plan.

MS. LEA said the division already has the statutory authority to do so; it is just a matter of having the capability for employers to report the deferred compensation contributions to the State. There has to be a consolidated feed that goes to Empower: each employer cannot send their own individual payroll feed. When the e-reporting tool for PERS and TRS transmission of contributions is updated and enhanced, the State will be able to do this. At that point, deferred compensation plan participation will be voluntary, so the division will do an educational campaign to the employers. The division will have to join with the Empower representatives to do employee education at those different employers' sites.

MR. BOUCHER said he thought it was an idea worth pursuing. He added that there are private firms that essentially provide this service in this space, so the committee should be aware that it may be viewed by some people as an encroachment of the State.

MR. BRICE stated that being on the front lines and talking to new employees of the defined contribution plan who try to comprehend the various ranges of DC options that they have available to them, they find the information that is presented very overwhelming. He doubted that within the first month or two the division could have new employees settle down adequately so they could participate in the seminar and make a conscious decision. He also represents a lot of the environmental services folks who have reported to him directly that these types of elections are almost meaningless to them in terms of understanding the upsides and downsides of each of the options. He related the incident of a groundskeeper in Sitka who approached him and said he did not know what elections he was supposed to make or what it all meant. This person said he would prefer that the State just do it all for him. He said he points these people to DRB, but he did not know if they ever connected because they were so overwhelmed.

CHAIR TRIVETTE said he has worked with Ms. Lea and Mr. Worley in the last few months, and he has a lot of information on disbursements and average account balances, etc. in a file, which he really appreciated. Alaska is nine years into the defined contribution plan now, and almost half of all public employees in the state are in this plan. This is an appropriate time to look at all this data, and he expected more conversations over the next year about the issues and problem areas. One issue is that disbursement rates are quite high. The average account balances are not particularly high. DRB is paying attention to this now and working on it, and staff has their work cut out for them to try to increase the account balances. It could be that this committee will need to have a work session to go over ideas.

Responses to Recent DC Committee Questions

CHAIR TRIVETTE said one question was who was paying the premiums for the survivors on the defined contribution plan health plans. There were seven disabilities and two survivors at the time of the question.

MS. LEA explained that under the health plan for the survivor benefits those are being paid by particular unions because the members are not eligible to be in the plan at this time. Those who do have coverage, their premiums are being paid by their union and they actually are not in Alaska Care. Disabilitants do not have medical coverage until they turn normal retirement age.

CHAIR TRIVETTE reminded Mr. Boucher that the committee had requested his notes from his presentation at the April 22 meeting. MR. BOUCHER thanked him for the reminder.

CHAIR TRIVETTE brought up a problem mentioned at the last meeting that Empower does not have some information on some of the employees in terms of what they might have outside of the State of Alaska plan. For example, if they worked for another employer, they might have a 401K account elsewhere. He asked if there was any way that information would be made available so Empower could do a more accurate analysis of where they stand.

MS. LEA stated that DRB is transmitting the projected retirement benefit for the PERS defined benefit members, so that can be used in their financial advice. Employees have the ability to add that information themselves, and they can also turn on the Social Security benefit estimate if they are participating with a PERS employer that also participates in Social Security. Those employees who elect to go into the financial advice services can customize their account by adding that information in. Empower does remind anyone in the advisory services one time a year that they need to update. Empower does not provide any financial advice for members unless they have enrolled in the advice services. The majority of the membership is in the target date funds.

MR. BADER had a question about managed account free-look. He said it looked like when any PERS or TRS employee indicates that they are going to retire, they would be contacted by Empower for a free look at their advisory services for three months. He asked what happens at the end of three months.

MS. LEA explained that free-look is not necessarily for members who are at retirement age. It is for the new employee or the employee who has not been in advisory services. The employee has to actively enroll on their own. The information they get from enrollment warns them that if they do not dis-enroll they will start being billed in January 2016. They get a notice – she thought in the early part of December – that the free-look is ending. The employee will also see a notice in their account in December that if they do not wish to continue they have to dis-enroll themselves.

MS. LEA remarked that Mr. Brice's story about the groundsmen is very indicative of the employer failure that exists right now of getting new employees to seminars and getting them the information that they need. That is borne out in the statistics coming out of the survey. Had the employer done their part, that gentleman would know that he did not have to do anything, that he

was in a target date default and that that is a good default option to be in. Right now, DRB is not getting cooperation from the employers to get new employees this information.

MR. BRICE mentioned that he saw the Empower fall seminar schedule included in the slides. Both the seminars are being presented in Anchorage. There are employees from Unalakleet to Sitka to Deadhorse to Kotzebue to King Salmon to Dillingham, and some people have an aversion to computers or lack internet services to be able to get the information electronically.

MS. LEA said it is not reflected on the schedule, but this year DRB is working with the employer to sponsor a telephonic or video seminar so that the employer does all the setup. Then there are small groups that meet in order for DRB to provide this information to some of the areas that are so expensive that staff cannot afford to go to them. When employers provide this opportunity, people do not have to have access to computers and they can go to some place like the school library and see a video teleconference. DRB did this with the North Slope Borough a few weeks ago, where the borough sponsored it and broadcast the seminar on a video teleconference throughout the entire borough.

MS. RYAN said she was very concerned with the use of these statistics. Mr. Brice brought in an extremely important part, that these statistics are based upon a voluntary internet response. These are people who care to respond. It introduces extreme response bias. Mr. Brice's example of the groundskeeper is probably someone who will never respond to a voluntary internet survey. She did not know what to do about it, but she recognized when something was potentially faulty. Before any actions are taken based on these statistics, and this is a data-driven environment, she wanted a closer examination of the way the data is gathered. She doubted the statistics were truly indicative of all the participant population.

COMMISSIONER FISHER asked Ms. Ryan if her experience suggested that these statistics were probably biased to the positive, that is, the people who do not respond are probably less informed than this group.

MS. RYAN responded that she did not know, that the people she talks to are teachers and that is one group, and Mr. Brice has conversations with a different group of people because of who he sees. What worries her is the group of people who are not responding, and are those a group that DRB really needs to reach.

COMMISSIONER FISHER said he did not disagree that the survey has a bias, but the statistics are concerning enough to act upon. There is enough data to suggest there are issues.

MS. RYAN said she just wanted to proceed with caution, knowing that the data is flawed. A voluntary survey by nature leads to bias.

CHAIR TRIVETTE mentioned that Ms. Lea had indicated the division was looking for other ways to do surveys besides a survey monkey.

MR. BRICE remarked that the commissioner's point is dead on, that the data shows a big enough issue that it would have to be substantially over-reported to the negative to think there was no need to change anything. The survey results are enough to give direction.

CHAIR TRIVETTE thanked Ms. Lea and Mr. Worley for providing all the information to the committee. He suggested a short appendix for the "Plan Review" report from Empower included in the packet that explains terms that may be unfamiliar to some readers.

Status of Work on IRS Compliance – No report given.

B. Defined Contribution Fiduciary Best Practice

Defined Contribution Trends

MR. BADER introduced LORI LUCAS, the defined contribution expert from Callan Associates, Inc. and provided some background on her work. Ms. Lucas was invited to this meeting to talk about some of the best practices in defined contribution plans, and also be available to answer committee member questions.

MS. LUCAS drew attention to the Fiduciary Handbook in the packet and Callan's Defined Contribution Survey, which they field every year from plan sponsors. Callan asks plan sponsors what they have achieved in the past 12 months and, looking forward, what they are intending to do with their defined contribution plan. *[Callan's Fiduciary Handbook and Defined Contribution Survey were included in the meeting packet and are on file at the ARMB office.]*

Starting with the Fiduciary Handbook, MS. LUCAS stated that they separated out the role of a fiduciary from a defined contribution perspective into eight different categories. It looks at areas that the plan sponsor has under their control from an investment perspective. But they also include some communication and some utilization, not necessarily obligations as much as things that are best practices for defined contribution plan sponsors. The key areas are:

- Evaluation and keeping the investment structure up to date
- Reviewing the investment policy statement
- Monitoring the target date glide path
- Reviewing investment manager performance
- Benchmarking plan fees
- Communication and utilization sections

MS. LUCAS next talked about the 2015 Callan defined contribution trends survey. Last year 144 defined contribution plan sponsors responded, 30 of which were government plans. The government plans were mainly 457 plans and mainly plans that had a billion dollars or more in assets.

CHAIR TRIVETTE asked if Alaska was one of the plan sponsors in the Callan DC survey. MS. LUCAS said she did not think so but would check.

MS. LUCAS reviewed the breakout of constituents of the survey, 21% of which were government plans, and two-thirds of which were 457 plans. One question was if they offered a

defined benefit plan. Overwhelmingly, government plans said that they also offer an open defined benefit plan, which differs from the rest of the universe. Many of the defined contribution plans that are corporate plans have a defined benefit plan (about 75%), and almost half of those plans are frozen.

MS. LUCAS next looked at the area of a fiduciary evaluating and updating the investment structure. Best practice here is about understanding investment options from a three-tier perspective. There are three categories of investors: the do-it-for-me investor, the more do-it-yourselfer, and the financially savvy investor. Callan is seeing more and more that simpler is the route that plan sponsors are going as they recognize that even the do-it-yourselfers tend to be challenged when it comes to managing their defined contribution plans. This means having fewer investment options rather than more. For the third category, about a third of the plans in the survey have a self-directed brokerage account for their participants. Almost all plan sponsors that offer a self-directed brokerage account option take the view that they are not responsible as a fiduciary to monitor the investments. The Department of Labor has kind of waffled a bit on this, but they generally have taken the position that that is true, that the plan sponsor is responsible for the core investment options but not the self-directed brokerage options.

MS. LUCAS addressed the area of the basic philosophical tenets for building an investment structure: (1) to build it for the long term, so it is not something that should be revisited every year; (2) keep it simple; (3) look at the core options as being the least amount the plan sponsor will offer; and (4) cost is important.

CHAIR TRIVETTE asked if Callan or other firms contract to do an analysis of a state-sponsored defined contribution plan in light of the guidance in the fiduciary handbook.

MS. LUCAS said absolutely. The purpose of the fiduciary handbook was to establish an agenda for plan sponsors that Callan uses as part of their offer when they are on full retainer with defined contribution plan sponsors. It provides guidance for setting up a plan for the next year about what needs to be re-addressed.

MS. LUCAS referred back to a survey question that asked if the plan used a tiered investment structure. About 50% of the government plans said yes, which is slightly more than the 42% of the overall population of plans that said yes. Callan asked further what the investment structure looked like, more specifically what the mix of active and passive funds looked like. The most prominent mix, both for government plans and plans in general, was a mix of active and passive that was more strategic in nature. They do not leave it up to the participant to choose the mix. When a plan sponsor leaves it up to the participant to choose the mix of active and passive funds, that is known as an active/passive mirror. About 17.9% of plan sponsors said that they have a passive/active mirror. They have two sleeves in their core: one is all active and one is all passive, and then the participant chooses which they want to invest in. That is becoming more common. The reason for that, generally speaking, is that plan sponsors are concerned about fees. It is not that philosophically they are saying the active/passive mirror is superior, but they want to have investments available in the lowest cost passive vehicles in every category. The down side of that

is it increases the number of fund choices. The question also is whether participants really know the difference between active and passive funds.

MS. LUCAS stated that a question on the survey dealt with the types of investment vehicles a plan offered. Not surprisingly, the vast majority of both government plans and overall plans offered at least one mutual fund and many offered many mutual funds. It was interesting that government plans tend to be more specific in the types of funds that they offer: 76% of government plans offer mutual funds (lower than the overall population) but 34% offer collective trusts. That indicates that where more corporate plans are offering a mix, more government plans are offering either mutual funds or collective trusts. Another 31% are offering separate accounts. An overall trend that Callan is seeing is increased usage of collective trusts and separate accounts. Again, it is the concern about costs. Also, these defined contribution plans are getting bigger and bigger, and they qualify for more institutional fee structures.

MS. LUCAS said the survey asked plan sponsors when they last did an investment structure evaluation: 60% said they had done an evaluation, but Callan does not believe 60% of the plans do a formal process every year. What they probably are doing is looking at their structure to see if they need to switch up anything. Regular due diligence was the most prevalent reason plan sponsors said they were doing an investment structure evaluation – so not with the goal of really changing anything.

COMMISSIONER FISHER asked, if a plan sponsor is reviewing the investment structure every year and making incremental adjustments along the way, would Ms. Lucas still think there should be some point where they need to do a wholesale evaluation or if making changes to keep the structure fresh was adequate.

MS. LUCAS said it is important to do the formal process periodically because the plan itself may be growing and it may need adjustments in a more wholesale kind of fashion. Also, the environment is changing. To look at what was available ten years ago versus today, there are a lot of different types of funds available now. For example, real assets funds were not even on the radar a few years ago, and today there is a lot of product that might be worth looking at. So a formal investment structure evaluation every three to five years.

MS. LUCAS stated that fewer plan sponsors are saying they are increasing the number of funds in their investment structure. Nine point three percent said they had increased the number of funds when they made their menu change. Fifteen percent actually said they decreased the number of funds. The majority of plans just kept the number of funds the same. While plan sponsors may see a real asset fund out there and say it is interesting and should they add it to their plan, at the same time they do not want to see the number of funds ballooning because it confuses participants.

MS. RYAN asked what the recommended frequency was for evaluating the investment structure. MS. LUCAS referred to slide 9 and said a lot of plan sponsors appear to be doing the evaluation frequently, with many having done it within the last year. She thought the recommended time frame would be every three to five years.

Moving on to applying and periodically reviewing investment policy statements, MS. LUCAS stated that Callan is a very big proponent of an investment policy statement for a defined contribution plan. Callan believes it is an important road map for the committee to use in making their decisions. It needs to be viewed as a road map, and it is easy to get mired in investment policy statements. One of the most major law suits that have happened in the defined contribution industry involved an investment policy statement that the judge felt was not being adhered to. Plan sponsors have to be really careful in making sure that the policy statement is a good guide and not something that trips them up. The Ninth Circuit Court judge made that statement, but on appeal the court took exception to it and said they did not want to discourage plan sponsors from using investment policy statements.

MS. LUCAS said the dos and don'ts are critically important with an investment policy statement. The dos are simply things like stay on point, have the policy statement be short and to the point. An investment policy statement that goes on for 20 pages is probably way too long. Be clear, have clear metrics that are something that the committee can actually adhere to. She has seen reference to putting on the watch list any manager who had "disappointing" relative performance and there is a whole laundry list of various periods of time, and also "disappointing" risk-adjusted performance. Plan sponsors can go into so much detail that it is almost impossible for a manager not to be on the watch list. So be careful not to set yourself up for that kind of situation.

Conversely, avoid language like "we want to possibly put on a watch list an investment manager who underperforms over a full market cycle or who has changes in their risk profile or portfolio characteristics." Use more general language that gives the committee guidelines but does not pin them in so that they really have no discretion in thinking about more than just short-term performance. Other important dos are to document decisions and then follow the investment policy process. That means reviewing the investment policy on a regular basis, because people can forget what is in it.

Some important don'ts are do not overcommit, focus on the short term, or set it and forget it. Make sure the investment policy statement is a living document.

MS. LUCAS stated that most plans do offer an investment policy statement: 85% said they offer one, and about 75% of government plans said they offer an investment policy statement. Many, although not all of them, review it very regularly. Fifty-eight percent said they had reviewed their policy statement within the past twelve months, and government plans were 52%. Callan recommended reviewing the investment policy statement annually or if there is a major change in the plan in between.

MS. LUCAS said that more and more they are seeing plan sponsors be interested in also having a fee policy statement. This basically tells the committee how fees are being paid and who is paying fees. It outlines it in clear language so everyone is on the same page when they are adding a fund or reviewing a fund – whether revenue sharing is acceptable, or whether they are always interested in looking at the lowest fee share class, etc. Thirty-one percent of government plans

said that they do have a written fee payment policy, which is slightly lower than for plan sponsors in general.

MS. LUCAS turned to target date funds, which are a separate category because they are so very important. The number of defined contribution plans with a target date fund has grown from just under 70% in 2008 to closer to 90% more recently. The assets, too, have been growing, and the typical plan sponsor that offers a target date fund has about 30% of their plan assets in the target date fund. On a regular basis, cash is flowing very heavily into these target date funds. On the government side, 50% offer a target date fund as their default investment option.

There has been a lot of activity on the target date front because of the Department of Labor's "Tips for Fiduciaries" in evaluating and monitoring their target date fund glide path. A couple of key things caused plan sponsors to pay attention to these tips. The Department of Labor was very interested in plan sponsors looking at the demographics of their plan participants and making sure that the target date fund fit the demographics. It was recognition that target date funds are not a commodity; they vary widely, and make sure the target date fund is suitable for your plan. DOL said to also consider whether your plan should have a custom or non-proprietary target date fund. Maybe a plan is big enough and has unique enough characteristics that it merits a customized target date fund. Callan is seeing a tremendous uptick in plan sponsors doing what they call suitability studies, which is looking at these factors to make sure that the target date fund they may have added back in 2006 and 2007 still makes sense for their plan. The other thing to keep in mind is that these target date funds have been constantly evolving, and what may have been appropriate eight years ago may not be so appropriate today.

MR. BADER said that since target date funds are addressing age, he thought Ms. Lucas must be talking about a demographic other than age. He asked if it was life expectancy or what.

MS. LUCAS explained that it was stuff like the presence of a defined benefit plan, levers that could make the whole demographic be able to take more or less risk. So Callan looks to see if a defined benefit plan is available to participants and, if so, maybe they could take less risk in the glide path. It is also looking at things like contributions to the plan. If people are contributing at very low levels, they might have to take more risk in order to reach a certain retirement income replacement ratio.

CHAIR TRIVETTE indicated he would like to have that conversation on a different day about looking at characteristics of the participant population besides just age.

COMMISSIONER FISHER asked, if the ARMB looked at its defined contribution plan population and determined that people were not investing enough to be able to reach retirement income replacement, if the ARMB had a fiduciary obligation to increase the exposure to aggressive investments to try to help that.

MS. LUCAS replied that it was a topic of considerable debate. She did not think it was a fiduciary obligation to take that point of view, by any means, because there are some plan

sponsors who have argued the opposite pretty vehemently to say they do not want to put their participants at risk for various reasons.

COMMISSIONER FISHER said he thought the Board's obligation would be to try harder to educate people but not to substitute risk.

MS. LUCAS said she has seen it go both ways, which is why a plan sponsor would not want to just look at that variable but look at other factors as well.

MR. BRICE commented that the contribution rates are established by statute, so it would require a change in statute. But it would be an interesting debate to engage in if there were not all the other issues hanging over everyone's heads. Other options are deferred compensation, and how are people using that. That gets back into the earlier discussion with Ms. Lea about defined contribution plan participant education. That is one of the reasons he asked about the demographics because anecdotally what he sees on the job sites is the younger folks coming in are much more willing to move around and withdraw that retirement money for a wide variety of options, as opposed to continuing to keep it in a safe program.

MS. LUCAS stated that in looking at the advocacy of a glide path there are many different variables to take into account – not only retirement income replacement ratio, but short-term volatility and all the variables around risk. She recommended looking much more broadly at all the risks that participants are subject to.

Regarding reviewing and monitoring investment manager performance, MS. LUCAS said slides 20-21 were talking about the bar that has been raised with the *Tibble v Edison* Supreme Court decision. Plan sponsors have been monitoring the performance of their defined contribution plans for many years and feel quite confident that they understand what the obligations are. With the *Tibble v Edison* decision, there has been some question as to the extent of what really needs to be done in ongoing monitoring. Unfortunately, not many conclusions have been reached, but what is out there is does the plan sponsor have the same level of fiduciary obligation when it comes to monitoring as they have with the initial investment selection. This is a very high bar, if you have to have the managers in defending themselves every quarter. That was raised in the *Tibble v Edison* decision. It was remanded back to the Ninth Circuit Court to really sort out and determine what the obligation should be for plan sponsors and fiduciaries when it comes to monitoring the selection. It remains to be seen how this plays out.

MS. LUCAS also talked about fees monitoring and benchmark plan fees, another area where there is a ton of interest, not only with respect to the lawsuits that have been raised but also the Department of Labor's fee disclosure requirements. Slide 25 explains investment management fees versus administration fees. The plan sponsor is responsible for making sure both are reasonable and also that services covered are in line with the amount of money being paid. A typical exercise that Callan does is breaking out the fees, both in terms of the actual expense ratios and any revenue sharing. More and more plan sponsors are looking at how the fees are being paid, if they are comfortable with revenue sharing, or if they want to consider different fee payments. Callan believes more plan sponsors will be moving away from revenue sharing to

things like a fixed fee out of pocket. According to the survey, 49.5% of plan sponsors said they were keeping the fee levels the same, but 36% said they had reduced plan fees. Callan is already seeing these fee reductions playing out in the recordkeeper landscape, where recordkeepers are acquiring other recordkeepers. That opens some opportunities. When Empower purchased JP Morgan, they also purchased the Financial Engines platform, and Financial Engines has drawdown capabilities that might be attractive to consider. Going forward, it might also reverse the pressure and create an environment where there is more demand than there is supply, which could increase fees over the long term.

COMMISSIONER FISHER asked if Callan saw plans managing the fees differently than just competitively bidding them, such as negotiating in a more strategic way a relationship that drives fees down.

MS. LUCAS said that Callan's recommendation is that plan sponsors have a three-tiered process. Going out to bid every year is certainly not feasible. Even every few years is probably not feasible. A plan would want to go out periodically for a full request for proposal. A plan sponsor can benchmark fees far short of going out to an RFP annually, just using databases. Then every three years a plan might want to do a blind RFI process that can be very effective in understanding the marketplace but not be subject to the very in-depth requirements and expense of an RFP.

MR. BOUCHER asked if plan sponsors change recordkeepers very often.

MS. LUCAS replied that more often than not, even with an RFP process, the plan sponsor remains with the incumbent. It is very challenging to do a transition and a conversion, and recordkeepers will make it very attractive for a plan sponsor to stay with them. Even with an RFI process, Callan commonly sees 25-30% reductions in fees. That is why there is such pressure on the recordkeeping industry now.

MS. LUCAS concluded her presentation with a sample committee agenda covering four quarters (slides 35-38) that this committee might want to look at for how a fiduciary could address the important issues throughout the year.

MR. BADER mentioned that he had expressed concern earlier that during the financial meltdown many people wanted a Treasury bill option: they invested their money into that account and have left it there ever since, essentially earning nothing. He asked Ms. Lucas to speak about a strategy she told him about that some plans were using.

MS. LUCAS stated that part of the Callan defined contribution plan survey data is that one in ten sponsors has engaged in what is called an asset re-enrollment. The idea is that for whatever reason, including that the plan sponsor does not believe participants have made investment decisions that are in their best interests, the plan sponsor goes through the process of re-enrolling everyone in the plan into the default option, usually the target date fund. Participants can opt out if they choose to: most will not. In fact, Callan did this with its own plan, and 70% of the participants remained in the target date fund.

COMMISSIONER FISHER asked if everyone was re-enrolled and not just the participants the plan sponsor thought were not invested for their best interests.

MS. LUCAS said it typically is 100% of the plan population, but there are exceptions. In some cases, certain funds are carved out. For example, the stable value fund cannot be re-enrolled because of specific guidelines.

COMMISSIONER FISHER asked how participants react to re-enrollment.

MS. LUCAS replied that they typically do not react at all. It is a big communication commitment, which is why only 10% of plan sponsors have done it. The main reason plan sponsors have not done it is because they find it too disruptive. The main reason plan sponsors do have a re-enrollment is that they are changing the investment fund lineup so materially anyway that it is already being disruptive.

MR. BADER said the disbursements survey results that Ms. Lea presented earlier made reference to the self-directed brokerage account: 23% of the people said they might have left their money in the plan if they had had that option available to them, 70-some percent did not think it would have mattered. This committee has discussed this before, and the commissioner of the Department of Administration at that time did not favor the self-directed brokerage account because of concerns about liabilities for the State. The commissioner of the Department of Revenue at that time liked it and thought it would provide better opportunities for people to manage their retirement money better. He said he would like to see the self-directed brokerage account option explored.

COMMISSIONER FISHER agreed with Mr. Bader, saying that he tended to believe that people are smart enough to make their own decisions. He did not perceive a lot of liability for the State, but if someone believes there is, it should be examined. His general philosophy is that the State should give participants the ability to manage their money the way they want to. That includes someone who does not really want to think about it all the way to someone who wants to proactively manage everything about the investment process.

MR. BADER indicated he wanted to present more about the self-directed brokerage option and the possibility to the Defined Contribution Plan Committee at future meetings.

CHAIR TRIVETTE said he agreed. He added that over the last five years the committee has considered quite a few options for the DCR plans, and the committee has moved forward on some on them, has done some tweaking, and has worked with the fund managers to increase the options. He commented that it may also be time to look at maybe not offering all the options that are available now. Depending on the cost, he also favored having Callan or another firm come in and do a review of the plan and provide their analysis. Alaska is nine years into a defined contribution plan now, so it is probably time for a review.

MR. BADER stated that he learned some things today, and on some of them he was thinking the committee and staff should be doing those things. If the recommendation could be to the ARMB to engage Callan to provide some of these services, then he would get staff to follow up. For example, there is no investment policy statement for the defined contribution plans.

CHAIR TRIVETTE said he had technical questions to which the investment staff could provide quick short answers to the committee.

MR. BRICE suggested giving a copy of the fiduciary handbook to new members, or every couple of years review and adopt the fiduciary handbook. This would help trustees keep their perspective fresh on what their responsibilities are. He added that going to Callan College was a very meaningful experience for him, in terms of getting much of that topic.

COMMISSIONER FISHER said he was interested in seeing a formal proposal from Callan for evaluating the defined contribution plan. He said there are some tasks presented today that the committee could take on itself, and some things they would need help with.

MR. BADER stated that he could talk to Ms. Lucas and bring an action memo to the December meeting, which would have a list of services and a proposed amount.

CHAIR TRIVETTE indicated he would make that report to the full Board tomorrow. Everyone agreed.

CHAIR TRIVETTE invited committee members to forward any questions to him to give to Ms. Lucas before December's meeting.

OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE

MS. RYAN pointed out that the last minutes included mention of possibly having a T. Rowe Price presentation from Tony Luna. CHAIR TRIVETTE said that would take place at the full Board meeting tomorrow.

PUBLIC/COMMITTEE MEMBER COMMENTS

There were no comments.

ADJOURNMENT

The Chair adjourned the meeting at 12:41p.m.

Note: The summary minutes are extracted from staff's recording of the meeting and are prepared by an outside contractor. The digital recording and the documents reviewed and discussed are on file at the ARMB office.

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